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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 001193

SIPDIS

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SUBJECT: DEPUTY PRIME MINISTER SOFAN: ECONOMIC ISSUES AND  
AVENUES FOR FUTURE COOPERATION

REF: SANAA 1150

Classified By: Ambassador E. J. Hull for reasons 1.5 b. and d.

1. (C) Summary: Newly appointed Deputy Prime Minister and Minister for Planning and International Cooperation Ahmed Sofan outlined the new government's priorities to Ambassador in a courtesy call on May 26. Sofan also said that he expects the long-delayed gun-control legislation to pass Parliament. Welcoming President Bush's free trade proposal, Sofan reinforced his commitment to cooperate fully with the USG on assistance-related issues. End Summary.

2. (U) On May 26, Ambassador paid a congratulatory call on newly appointed Deputy Prime Minister and Minister of Planning and International Cooperation Ahmed Sofan. Sofan was promoted in the recently formed cabinet from Minister of Planning and Development to Deputy Prime Minister and his ministry was given new oversight authority over international cooperation.

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New Agenda: Economics and Combating Terrorism  
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3. (U) Sofan highlighted three priorities for the new government's agenda: economic reforms, implementation of the poverty reduction strategy formulated by the World Bank, and enhancing counterterrorism activities.

4. (C) Expressing concern over the effect of declining oil prices on the Yemeni economy, Sofan said that if oil prices fall below 25 USD a barrel the ROYG may seek donor support. Even now, he added that the public may be surprised at next year's budget, implying that there may be cuts. Adding that regional economic cooperation has not fulfilled expectations, Sofan said that the Yemeni public may see a disconnect between their social welfare needs and the current economic reality.

5. (C) Sofan predicted that he thought Yemen would be more forthcoming in the political realm of combating terrorism by making its position very clear to the public. On a related issue, the Ambassador raised the long-delayed gun control legislation -- which inter alia could ban private ownership of MANPADS -- and noted its passage would be an "important step." Sofan responded by saying that he thought they were going to succeed in gaining its passage.

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Free Trade Agreement: Supportive, but  
Regional Integration Faces Hurdles  
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6. (C) Sofan supports President Bush's Middle East Free Trade Initiative because he believes it will offer better assistance to the private sector than other USG assistance projects. He specifically asked for an American firm to help with Yemen's public relations and complained that the ROYG received very little assistance in that area from other donors. Programs funded by the USG through the National Democratic Institute to facilitate democracy, Sofan added, were helping Yemen's reputation. However, he repeated, an American PR firm was the best solution to promote Yemen's tourism, business and image abroad.

7. (C) Turning to the possibility of regional free trade agreements, Sofan recalled that in the past, internal Arab politics had frustrated regional trade promotion programs. Recalling the first Arab Free Trade Agreement in 1958, Sofan declared that no progress has been made since then to facilitate trade. Moreover, the U.S. Free Trade Agreement with Jordan has hurt Egyptian textile trade with the U.S. Sofan noted that the Gulf countries have similar economies and must compete against each other for business.

8. (C) Instead, Sofan encouraged the USG to consider short term initiatives that would help the Yemeni economy and pledged that he would work with the USG to determine what was needed. For example, he thought the Ministry of Trade and Industry may need special experts on preparation of documents for World Trade Organization accession.

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## Civil Service Reform: The Slower Approach

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18. (C) Sofan reinforced the new government's commitment to civil service reform, saying there was "no question of not doing it." Suggesting that as many as 300,000 civil servants would eventually have to be laid off, and that salaries would have to be raised to ten times the amount presently offered, Sofan said the new government would embark, of necessity, on a "slower approach" to civil service reform. The government will focus on encouraging employees to retire, ending "double dippers" (people who hold jobs at more than one ministry) and minimizing the bureaucracy. Sofan added that the World Bank program on civil service reform would not be sufficient to carry out a complete overhaul of the civil service and there may be areas for future USG cooperation.

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## Encouraging Increased Interaction

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19. (C) Positively assessing USG and ROYG assistance cooperation, Sofan pledged to continue USG and ROYG close interaction, especially with the imminent arrival of USAID. Ambassador described the process that determines whether Yemen qualifies for the Millennium Challenge Account and pointed out that he may return to Sofan and ask for his specific help in certain categories where Yemen may fall short. Sofan agreed and pledged to work closely on MCA. Sofan closed by explaining that his new Ministry was created to centralize all interaction on assistance, with the goal of stemming corruption. Before, he added, too many Ministries were involved in making decisions on assistance and this process allowed for corruption.

HULL